

**REPORT OF THE AUDIT OF THE
CAMPBELL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CAMPBELL COUNTY SHERIFF

**For The Year Ended
December 31, 2003**

The Auditor of Public Accounts has completed the Campbell County Sheriff's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues and expenditures of the County Sheriff and the revenues, expenditures, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

Excess fees turned over to the county increased by \$130,853 from the prior calendar year. Excess fees totaling \$1,314,757 were deposited in the 75% fund and excess fees totaling \$330,446 were deposited into the 25% fund as of December 31, 2003.

The financial statement of the Campbell County Sheriff's 75% fund reflects a beginning balance of \$0, receipts of \$1,314,757, and disbursements of \$1,087,946 resulting in a fund balance of \$226,811 as of December 31, 2003. The 25% county government fund had receipts and disbursements of \$330,446 resulting in a zero fund balance as of December 31, 2003.

Report Comment:

- Lacks An Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steven Pendery, Campbell County Judge/Executive
The Honorable John D. Dunn, Jr., Campbell County Sheriff
Members of the Campbell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the County Sheriff of Campbell County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2003. These financial statements are the responsibility of the County Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the Campbell County Sheriff and the revenues, expenditures, and fund balances of the Campbell County Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 24, 2004, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



The Honorable Steven Pendery, County Judge/Executive
The Honorable John D. Dunn, Jr., Campbell County Sheriff
Members of the Campbell County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks An Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Campbell County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 24, 2004

CAMPBELL COUNTY
JOHN D. DUNN, JR. , COUNTY SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

State - KLEFPF		\$	30,574
State Fees for Services			
Finance and Administrative Cabinet	\$	145,288	
Return Of Fugitives		<u>37,500</u>	182,788
Circuit Court Clerk			
Sheriff Security Service			123,966
Fiscal Court			19,649
County Clerk			5,016
Commission on Taxes			1,096,960
Fees Collected for Services:			
Auto Inspections	\$	39,885	
Serving Papers		106,559	
Carrying Concealed Deadly Weapon Permits		11,415	
10% Additional Fees		<u>77,929</u>	235,788
Other Revenues:			
Interest Earned	\$	1,171	
Refunds		10,943	
Miscellaneous		<u>8,030</u>	20,144
Total Revenues			<u>\$ 1,714,885</u>

The accompanying notes are an integral part of this financial statement.

CAMPBELL COUNTY
 JOHN D. DUNN, JR. , COUNTY SHERIFF
 STATEMENT OF REVENUES AND EXPENDITURES - REGUALTORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures

Payments to State:		
Carrying Concealed Deadly Weapon Permits	\$	9,190
Other Expenditures:		
Postage	\$	14,000
Serving Papers		9,430
Travel Reimbursements		36,997
Miscellaneous		65
		<u>60,492</u>
Total Allowable Expenditures	\$	<u>69,682</u>
Net Revenues	\$	1,645,203
Payments to State Treasurer:		
75% Operating Fund	\$	1,314,757
25% County Fund		330,446
		<u>1,645,203</u>
Balance Due at Completion of Audit	\$	<u><u>0</u></u>

The accompanying notes are an integral part of this financial statement.

CAMPBELL COUNTY
 JOHN D. DUNN, JR., COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2003

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2003	\$	\$	\$
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,314,757		1,314,757
Fees Paid to State - County Funds (25%)		330,446	330,446
Total Funds Available	1,314,757	330,446	1,645,203
<u>Expenditures</u>			
Campbell County Fiscal Court	\$	\$ 330,446	\$ 330,446
Personal Services-			
Official's Statutory Maximum	81,968		81,968
Deputies' Salaries	666,392		666,392
Employee Benefits-			
Employer's Share Social Security	54,399		54,399
Employer's Share Retirement	77,719		77,719
Employer's Paid Health Insurance	67,560		67,560
Dental and Life Insurance	8,205		8,205
Unemployment Insurance	2,575		2,575
Contracted Services-			
Service Contract	438		438
Materials and Supplies-			
Office Supplies	32,402		32,402
Police Supplies	1,069		1,069

The accompanying notes are an integral part of this financial statement.

CAMPBELL COUNTY
 JOHN D. DUNN, JR., COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures (Continued)</u>			
Other Charges-			
Vehicle Expense	\$ 33,020	\$	\$ 33,020
Postage	755		755
Telephone	11,391		11,391
Dues	3,066		3,066
Travel	248		248
Legal Expense	5,100		5,100
Insurance	34,639		34,639
Capital Outlay-			
Office Equipment	7,000		7,000
Total Expenditures	<u>\$ 1,087,946</u>	<u>\$ 330,446</u>	<u>\$ 1,418,392</u>
Fund Balance - December 31, 2003	<u>\$ 226,811</u>	<u>\$ 0</u>	<u>\$ 226,811</u>

The accompanying notes are an integral part of this financial statement.

CAMPBELL COUNTY
JOHN D. DUNN, JR., COUNTY SHERIFF
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2003
- Payroll expenditures incurred but not paid

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

CAMPBELL COUNTY
JOHN D. DUNN, JR., COUNTY SHERIFF
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2003
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months and 7.34 percent for the last six months of the year. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent for the first six months of the year and 18.51 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bonds which named the Sheriff as beneficiary/obligee on the bonds.

Note 4. Travel Account

The Sheriff maintains a travel account for return of fugitives receipts that are reimbursed by the state. The account had a beginning balance of \$6,138 as of January 1, 2003. During the year, the Sheriff had receipts totaling \$37,866. Funds totaling \$43,997 were expended during the year. This included \$7,000 in excess travel turned over on a pay-in voucher to the Sheriff's 75% account. The unexpended balance was \$7 as of December 31, 2003.

COMMENT AND RECOMMENDATION

CAMPBELL COUNTY
JOHN D. DUNN, JR., COUNTY SHERIFF
COMMENT AND RECOMMENDATION
For The Year Ended December 31, 2003

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks An Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties.

Because of the limitations of the Sheriff's office it appears that only compensating controls may achieve a proper segregation of duties. Compensating controls require the Sheriff's direct supervision over receipts and disbursements and includes, but is not limited to, the following:

- Cash Recounted And Deposited By The Sheriff
- Surprise Cash Counts By The Sheriff
- Reconciliation By The Sheriff Of Other Monthly Reports To Source Documents And Receipts And Disbursement Ledgers
- Requiring Dual Signatures On Checks With One Being That Of The Sheriff
- Examination By The Sheriff Of Checks For Proper Documentation That Are Prepared By Another Employee
- Official Mails Checks
- Require Employees To Be Cross-Trained
- Require Employees To Take Mandatory Vacations
- Bank Reconciliations Prepared By The Sheriff
- Publishing The Financial Statements

We recommend that these controls be performed in order to offset a lack of adequate segregation of duties. Documentation of these controls should be maintained for the auditor in order to verify their existence.

Sheriff's Response:

None.

PRIOR YEAR:

1. The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

This has been corrected.

2. Lacked Adequate Segregation of Duties

This has not been corrected and is repeated.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steven Pendery, County Judge/Executive
The Honorable John D. Dunn, Jr., Campbell County Sheriff
Members of the Campbell County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Campbell County Sheriff for the year ended December 31, 2003, and have issued our report thereon dated August 24, 2004. This was a special report on the County Sheriff's financial statements prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Campbell County Sheriff's financial statements for the year ended December 31, 2003, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Campbell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comment and recommendation.

- Lacks An Adequate Segregation Of Duties



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 24, 2004

